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Federal Open Market Committee

Conference Call

September 13, 1991

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. LaWare
Mr. Mullins

Messrs. Guffey, Hoskins, Melzer, and Syron,
Alternate Members of the Federal Open Market
Committee

Messrs. Boehne, McTeer, and Stern, Presidents of
the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary

Messrs. Beebe, Lindsey, Promisel, Siegman,
Simpson, Slifman, Associate Economists

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross, Manager for Foreign Operations,
System Open Market Account

Mr. Wiles, Secretary of the Board, Office of the
Secretary, Board of Governors
Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
Mr. Stockton, Associate Director, Division of
Research and Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Messrs. Monhollon, Oltman, and Thomson, First
Vice Presidents, Federal Reserve Banks of
Richmond, New York, and San Francisco,
respectively

Mr. Hoenig, Senior Vice President, Federal
Reserve Bank of Kansas City

Transcript of Conference Call of
September 13, 1991

MR. BERNARD. Good morning, everyone. This is Normand Bernard at the Board. I'd like to run through the attendance very quickly. Here at the Board, all of the Board members except for Governor Kelley and also Presidents Corrigan, Black, and Forrestal are in attendance. And representing the San Francisco Bank, Mr. Thomson is here at the Board. [Secretary's note: Mr. Bernard then called the roll to determine attendance at the Reserve Banks.]

CHAIRMAN GREENSPAN. Good morning, everyone. I just want to read to you a press release, which the Board is releasing shortly. "The Federal Reserve Board today announced a reduction in the discount rate from 5-1/2 to 5 percent. The change is effective immediately. The action was taken in light of weakness in the money and credit aggregates, the improving inflation environment, and concerns about the ongoing strength of the economic expansion. The reduction, in part, realigns the discount rate with market interest rates. In taking the action, the Board voted on requests submitted by the boards of directors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, and Dallas. The discount rate is the interest rate that is charged depository institutions when they borrow from their District Federal Reserve Banks."

The data that came out this morning I assume everyone is familiar with. Larry Slifman or Dave Stockton, maybe you ought to take a minute and quickly review what the numbers are.

MR. SLIFMAN. First of all, the total Consumer Price Index was up 0.2 percent and, excluding food and energy, the CPI was up 0.4 percent. One of the big players there was the perennial problem with college tuition at this time of the year. If we were to exclude the college tuition--I haven't actually done the calculation--I would suspect that the core CPI would have been up more like 0.3 percent. In terms of the retail sales data that we got this morning, total retail sales were down 0.7 percent. The total excluding the automotive group was down 0.2 percent. However, we did get an upward revision to that grouping--the total excluding automobiles--for the month of July. I haven't actually done the precise calculation yet but I would suspect that on balance the level of retail sales in August was probably about in line with what the staff had been anticipating or maybe even a tad stronger.

CHAIRMAN GREENSPAN. There was a downward revision in June.

MR. SLIFMAN. That I don't have.

CHAIRMAN GREENSPAN. It's 0.2 percent.

MR. SLIFMAN. You have more information than I do!

CHAIRMAN GREENSPAN. So, you'll find, I think that it's probably even or a shade under.

MR. SLIFMAN. Okay, a shade under.

CHAIRMAN GREENSPAN. So, it's not significantly different on the control group, I would say.

MR. SLIFMAN. Basically, that's the only information that we've been able to get. We haven't actually gotten the press release on the retail sales data so we don't have the full breakdown yet.

CHAIRMAN GREENSPAN. Gentlemen, in light of this I would propose that we allow 25 basis points to show through in the funds rate. I would solicit comments from members of the FOMC and the presidents.

MR. KEEHN. This is Si Keehn. I would certainly concur with your recommendation, Mr. Chairman.

MR. GUFFEY. Roger Guffey. I would also.

MR. STERN. Gary Stern. That sounds fine to me.

MR. SYRON. Syron. I agree.

MR. BOEHNE. Sounds good.

CHAIRMAN GREENSPAN. Okay. Are there any questions or any further comments?

MR. BOEHNE. What was the vote of the Board?

CHAIRMAN GREENSPAN. Unanimous.

MR. BOEHNE. How many Reserve Banks were in?

CHAIRMAN GREENSPAN. Eight?

MR. COYNE. Seven.

CHAIRMAN GREENSPAN. Seven.

MR. BOEHNE. Thank you.

MR. MELZER. Alan, this is Tom Melzer. I certainly agree with the action on the discount rate. And the action having been taken, a showing through to the funds rate ought to be allowed. In a sense, we almost have to. I must say that in a long-term context, I worry a little about reacting to current numbers on the real economy. It just seems to me that at a turning point, we're going to see some numbers that don't look too good and, in effect, we're reacting to bad numbers. I simply think this exposes us to the same sort of mistakes that historically were made in monetary policy around turning points. I have somewhat of a problem about it because I think we've [moved] quite generously over the last three or four years and going into this recession. And [unintelligible] need to. The other thing that troubles me even more in a sense is the idea--and this is sort of the mentality of the market--that good price numbers now give us room to move the discount rate down. Probably in an expectant sense they do, but what we do with monetary policy right now, of course, won't be reflected in prices for another couple of years. And just looking down the road, if we find in retrospect that we are overdoing it now,

it seems to me that we're going to be in a very difficult environment over the next year to take the proper steps to reverse that. So, as I say, I agree with 25 basis points showing through but I just want to express my concerns, if you will, about the longer-term view.

CHAIRMAN GREENSPAN. Tom, I think you're raising an important question. I would say were it not for the fact that we are seeing a very significant financial contraction both on the assets side and the liabilities side of the intermediaries, as well as in net funds raised, I don't think we could be sufficiently confident that the inflationary pressures are being subdued. I don't think we are reacting to--hopefully we aren't, at least--short-term economic events because if the credit aggregates and money supply were on track, there is nothing in the data that have come out in the past several days that would strike me as reason to be taking any action. So I think fundamentally we are responding to the financial system. And, hopefully, we won't fall into the abyss, which we've done so many times in the past, and which I think you correctly caution us against.

MR. MELZER. Thank you, Alan.

CHAIRMAN GREENSPAN. Any further comments? If not, thank you very much gentlemen.

MR. BOEHNE. When is the announcement going to be made?

CHAIRMAN GREENSPAN. Sometime before 9:30 a.m.

MR. BOEHNE. Thank you.

END OF SESSION